

Message Text

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ACTION EA-06

INFO OCT-01 SS-14 ISO-00 EUR-08 STRE-00 EB-04 OMB-01
NSCE-00 SP-02 INR-05 CIAE-00 NSAE-00 STR-02 L-01
/044 W

-----076592 161848Z /46

R 161741Z DEC 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1388
TREASURY DEPT WASHDC
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY BONN
AMEMBASSY ROME
AMEMBASSY COPENHAGEN
AMEMBASSY TOKYO
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 20535

LIMDIS

DEPT PASS STR ELECTRONICALLY

USEEC ALSO FOR EMBASSY

MTN ALSO FOR MISSION

USOECD ALSO FOR EMBASSY

E.O. 11652: XGDS-1
TAGS: ETRD, ECON, EFIN, JA, UK, EEC
SUBJECT: BRITISH VIEW OF US-JAPAN ECONOMIC TALKS

REF: (A) STATE 299513; (B) BRUSSELS 18599; (C) STATE
294485; (D) LONDON 20315

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1. AFTER HAVING SENT AMB STRAUSS' LETTER TO TRADE
SECRETARY DELL (REF D), E/C MINISTER MET ON DECEMBER
15 WITH MICHAEL BUTLER, THE FOREIGN OFFICE'S SENIOR
ECONOMIC OFFICIAL, TO GO OVER THE POINTS IN REF C AND
TO DISCUSS ECONOMIC RELATIONS WITH JAPAN GENERALLY.

2. BUTLER SAID THE UK BROADLY AGREES WITH THE U.S.

APPROACH; THE EC AND THE UK TOO HAVE BEEN MAKING BILATERAL APPROACHES TO JAPAN. BUT HE FELT IT IMPORTANT THAT THE U.S. AND THE EC SHOULD, WITHOUT APPEARING TO GANG UP ON JAPAN, ACT IN PARALLEL; AND HE HAD THE IMPRESSION THAT SOME, AT LEAST, IN THE U.S. GOVERNMENT WERE OPPOSED TO THE EC'S ACTING IN PARALLEL WITH THE U.S.

3. ACCORDING TO BUTLER, BRITISH (AND HE ADDED, FRENCH) MINISTERS FEEL THAT MAXIMUM RESPONSE FROM JAPAN WOULD BE PRODUCED BY PARALLEL US AND EC APPROACHES. THESE SHOULD INVOLVE THE SAME GENERAL POLICY, THOUGH NATURALLY THERE WOULD BE DIFFERENT SPECIFIC REQUESTS TO BE MADE.

4. BUTLER NOTED THAT THE EC COUNCIL OF MINISTERS HAD AGREED THAT JENKINS SHOULD INTENSIFY HIS APPROACH TO JAPAN. A FIRST RESULT WAS THE EC'S PUTTING A LOT OF PRESSURE ON USHIBA TO STOP IN BRUSSELS AFTER HIS WASHINGTON VISIT. BUTLER WAS NOT SURE WHAT THE COMMISSION WOULD BE SAYING TO THE JAPANESE, BUT THE BRITISH HAD GIVEN THE COMMISSION SOME IDEAS. IN THE BRITISH VIEW, IT IS IMPORTANT TO BE VERY SPECIFIC AND TO PUSH THE JAPANESE TO AGREE TO A TANGIBLE PROGRAM FOR THE ELIMINATION OF THEIR CURRENT ACCOUNT SURPLUS OVER THE NEXT YEAR.
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5. BUTLER NOTED THAT THE MEASURES SUGGESTED BY THE US (REF B) SEEMED "A BIT EXPURGATED". HE SAID HE KNEW FROM OTHER SOURCES THAT THE US WANTS JAPAN TO CEASE HOLDING THE YEN DOWN, AND BRITAIN AGREES. THIS WOULD HELP REDUCE THE JAPANESE SURPLUS AND ALSO BE GOOD FOR THE INTERNATIONAL MONEY MARKETS. HE HOPES THAT THE COMMISSION WILL BE MAKING THIS POINT TO THE JAPANESE.

6. HE ALSO AGREED WITH THE U.S. VIEW THAT THE JAPANESE SHOULD GO FOR A HIGHER GROWTH RATE. THEIR 1975 DECISION TO AIM AT A 6 PERCENT GROWTH RATE WAS NO DOUBT MISTAKEN, ESPECIALLY IF THAT RATE IS TO BE REACHED BY TOO RAPID A DECELERATION. HE KNEW THAT THE U.S. HAD PROPOSED AN 8 PERCENT TARGET, AND SAID THE IMF SUGGESTED 8-9 PERCENT. THE BRITISH WOULDN'T WANT TO CITE A FIGURE BUT WOULD WANT THE JAPANESE TO INCREASE THEIR TARGET FOR 1978-79.

7. AS FOR SPECIFIC DEMANDS, EVERYTHING MENTIONED ON THE U.S. LIST AS HE KNEW IT WOULD BE ON THE BRITISH LIST, PLUS ITEMS SUCH AS WHISKEY AND CONFECTIONERY.

HE ALSO NOTED THAT THE JAPANESE SHOULD BE PRESSED

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SPECIFICALLY TO DO WHAT THEY COULD TO MODERNIZE THEIR
DISTRIBUTION SYSTEM.

8. HAVING SUMMARIZED WHAT THE BRITISH WOULD HAVE THE
EC ASK OF JAPAN, BUTLER SAID HE THINKS THE EC AND THE
US ARE WORKING ON THE SAME LINES, BUT THE TWO SIDES
SHOULD STAY IN CLOSE TOUCH. IN THIS CONNECTION HE NOTED
THAT "SOME ODD THINGS KEEP CROPPING UP". THE BRITISH
EMBASSY IN WASHINGTON HAD ONLY THE DAY BEFORE REPORTED
THAT THE U.S. TREASURY LAID GREAT STRESS ON THE
JAPANESE MAINTAINING AT LEAST A 6 PERCENT GROWTH RATE.
HE FELT THIS AN UNDESIRABLE SOFTENING. ALSO THE
BRITISH AMBASSADOR IN TOKYO RECENTLY REPORTED THAT
MIYAZAWA OF THE ECONOMIC PLANNING AGENCY SAID THE U.S.
DISAGREED WITH THE NEW JAPANESE AID TARGETS ON THE
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GROUND THAT THE LDCS WERE TOO MUCH IN DEBT AND THAT THE U.S. WAS ONLY INTERESTED IN ACTIONS THAT WOULD REDUCE THE JAPANESE CURRENT ACCOUNT SURPLUS, NOT IN EXPANDING AND UNTYING AID. EITHER HIS AMBASSADOR OR MIYAZAWA MIGHT BE WRONG, BUT THE REPORT WAS AN AMAZING ONE.

9. THESE REPORTS ADDED TO HIS EMPHASIS ON THE NEED FOR THE TWO SIDES OF THE ATLANTIC TO KEEP IN THE VERY CLOSEST TOUCH. THE BRITISH WOULD LIKE TO BE ABLE TO SAY WITHOUT QUALIFICATION THAT THE US AND THE EC ARE WORKING IN PARALLEL TO GET JAPAN TO AGREE TO A COMPREHENSIVE POLICY FOR THE ELIMINATION OF JAPAN'S CURRENT ACCOUNT SURPLUS.

10. WHEN THE EC MINISTER ASKED WHETHER WHAT BUTLER WAS SUGGESTING MIGHT BE VIEWED BY THE JAPANESE AS "GANGING UP", BUTLER RESPONDED THAT AT LEAST MOST BRITISH OFFICIALS WOULD NOT WANT THIS REPRESENTED AS AN ANTI-JAPAN EFFORT, BUT AN APPROACH THAT IS IN THE INTEREST OF THE WORLD ECONOMY; AND HE FEELS IT MIGHT HELP THE "INTERNATIONALISTS" IN JAPAN TO WIN THE INTERNAL ARGUMENT OVER JAPANESE GOVERNMENT POLICY. HE THINKS THERE HAVE BEEN SIGNS THAT PROGRESS WILL BE MADE; THE BRITISH ARE ENCOURAGED BY THE CABINET RESHUFFLE; THEY ARE GETTING SIGNALS THAT THE JAPANESE WILL DROP THEIR 30 PERCENT LIMIT ON THE DEBT FINANCING OF GOVERNMENT EXPENDITURE. REPEATED PRESSURE ON THE JAPANESE WILL, HE THINKS, PRODUCE A SERIES OF JAPANESE CONCESSIONS THAT WILL IN THE END ADD UP TO SOMETHING USEFUL.

11. COMMENT. WE HAVE REPORTED BUTLER'S STATEMENTS IN DETAIL BECAUSE THEY REFLECT A FEELING THAT THE

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U.S., FOR WHATEVER REASON, HAS PLAYED A RELATIVELY LONE ROLE WITH JAPAN AND THAT US-EC COORDINATION HAS BEEN LESS THAN OPTIMUM. BUTLER HAD OBVIOUSLY PREPARED HIMSELF THOROUGHLY FOR THE MEETING AND WE THINK HIS VIEWS SHOULD BE TAKEN AS CONSIDERED ONES. HOWEVER, HIS IDEA OF PARALLEL APPROACHES COMES VERY CLOSE TO A JOINT APPROACH TO THE JAPANESE, AND WE THINK NEITHER HE NOR OTHER BRITISH OFFICIALS AND MINISTERS GIVE MUCH THOUGHT TO THE UNPLEASANT POLITICAL EFFECT THIS MIGHT HAVE IN JAPAN.

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